

Service Date: December 30, 1983

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
FOR THE STATE OF MONTANA

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In the Matter of an Application of)
the Mountain States Telephone and)
Telegraph Company (Mountain Bell))
for Authority to Change Rates and)
for Approval of Tariff Charges Due)
to Divestiture,)

UTILITY DIVISION

DOCKET NO. 83.11.81

INTERIM ORDER NO. 5046

FINDINGS OF FACT

1. On November 22, 1983, Mountain Bell filed an application for authority to increase rates to recover revenue deficiencies caused by divestiture. The Company calculated this revenue deficiency to be \$28,866,000 annually.

2. Concurrent with the application requesting permanent rate relief, Mountain Bell filed a request for interim rate relief for the total amount requested in its application.

3. Pursuant to the Commission¹'s rules on interim rate increases, ARM Sections 38.5,501, et. seq., Mountain Bell has given proper notice of its interim rate increase request. Such notice was given to the Montana Consumer Counsel and to media of general dissemination statewide,

4. On December 7, 1983, the Commission issued a Notice of Opportunity to Comment on Interim Rate Request for this docket.

Comments were to be received no later than December 22, 1983. Comments were received from the Rural Montana Telephone Systems.

5. Section 69-3-304, MCA, and ARM 38.5.50, et. seq., specifically authorize this Commission to temporarily approve increases in rates subject to rebate pending a hearing and final decision.

6. The supporting material filed with the Company's application shows an analysis of the financial impacts of divestiture based on 1984 forecasts. Mountain Bell developed a forecasted 1984 test year using "business as usual" assumptions. The Company then added the assumption that changes in Mountain Bell's service offerings occasioned by the Modified Final Judgement (MFJ) in United States vs. Western Electric Company, et. al., Civil Cause No. 82-0192 (D.D.C.) had occurred. Using these two 1984 forecasts, Mountain Bell isolated the changes in its financial condition caused by the impending divestiture.

7. The major services the MFJ prohibits Mountain Bell from offering beginning January 1, 1984, are inter-LATA long distance services and Customer Premises Equipment (CPE). All inter-LATA services will be transferred to AT&T Communications, Inc. (ATTCOM). Embedded CPE will be transferred to AT&T Information Systems (ATTIS).

8. Although Commission practice has consistently been to reject future test years, the conditions affecting Mountain Bell service in 1984 are substantially different from conditions in 1982. Furthermore, the Commission will have repeated opportunities throughout 1984 to conform its interim findings to actual, experienced results.

9. In granting Mountain Bell's request for a 1984 test year, the Commission does not embrace the concept of using future test years in rate cases. The Commission strongly supports the historical test year concept and fully intends to retain this concept in analyzing rate cases on an ongoing basis. It is only because of the vast changes taking place in Mountain Bell that the Commission consents to a 1984 test year in this proceeding. However, the Commission does intend to review and analyze actual results of operations as soon as they become available. If these results are not significantly in line with the projections relied on in this filing, the Commission may conduct additional review and additional interim rate adjustments may be made prior to the issuance of a final order.

10. Mountain Bell proposes a rate of return of 7.57 percent which is the projected 1984 earned rate of return and is less than that authorized under the most recent general rate order in Docket No. 83.3.18. The Commission finds that holding the rate of return constant is appropriate in a proceeding which attempts to isolate the effects of divestiture.

11. The Application for Interim Relief contains implementation of two new tariff applications. The first of these is the implementation of Carrier Access Charges which mirror Mountain Bell's filing with the Federal Communications Commission and are identical to those approved by the Exchange Carriers Association. The second of these is the implementation of a Bulk Billing Arrangement which seeks to recover the difference between net operating revenues lost by Mountain Bell to ATTCOM and the additional revenues to be generated by implementation of Carrier Access Charges. This method of recovering any shortfall due to loss of inter-LATA services was found to be appropriate in Order No. 5018a, Docket No. 83.6.47.

12. In calculating the dollar amount involved in the implementation of Carrier Access Charges, ATTCOM and Mountain Bell use different assumptions regarding the services each company will be offering in 1984. These differences arise in three areas: foreign exchange (FX), in-WATS ("800" service) and WATS access. An agreement has now been stipulated to by ATTCOM and Mountain Bell regarding FX and the Commission finds the agreement acceptable.

13. The measuring devices for 800 WATS service currently cannot identify the point of origination and, therefore cannot distinguish between inter-LATA and intra--LATA calls. ATTCOM assumes that because the message origin cannot be identified, and because Mountain Bell is prohibited from offering inter-LATA services, ATTCOM will be the sole provider of 800 service in Montana. Mountain Bell has proposed that it offer in-WATS jointly with ATTCOM, determining usage and billings on the basis of a statewide statistical sampling of 800 calls. The Operating Companies have requested a waiver of MFJ requirements to allow this type of an arrangement. On December 22, 1983, Judge Harold H. Greene granted this waiver until April 3, 1984. The Commission directs ATTCOM and Mountain Bell to provide in-WATS as a shared service on an interim basis until such time as a final determination is made by the Court.

14. There are also differences in the filings regarding the out-WATS access line. Mountain Bell proposes that it should be fully compensated for the WATS access line and bear all costs related to the access lines. ATTCOM requests that it be allowed to share in the provision of these access lines on a pro rata basis. The Commission finds that on an interim basis, the WATS access should remain solely a Mountain Bell service offering.

15. Mountain Bell calculates the additional revenues to be generated by implementation of Carrier Access Charges to be \$18,968,000. The Commission grants this portion of Mountain Bell's revenue request. The implementation of Carrier Access Charges which mirror Mountain Bell's filing with the FCC will generate \$15,803,000. Therefore, the "Bulk Billing" element will be \$3,165,000. Pursuant to Order No. 5018a, Docket No. 83.6.47, the Bulk Billing element will cease upon approval and implementation of the Carrier Access Charges at the FCC level. At that time, rate adjustments are likely to be needed for both Mountain Bell and ATTCOM.

16. The remainder of Mountain Bell's interim rate request, \$9,898,000, is attributable to loss of CPE and other increased cost assignments to Montana intrastate caused by divestiture. The revenue shortfall directly attributable to loss of CPE is \$6,506,000. The Commission grants Mountain Bell revenues in this amount. However, the remaining \$3,392,000 attributable to increases in other costs assigned to Montana intrastate is not well documented. The Commission finds that Mountain Bell has not borne its burden of proof that these additional revenues are needed solely because of the impending divestiture.

17. The \$6,506,000 increase in annual revenues granted in the above finding shall be generated by increasing rates as specified in Finding of Fact Nos. 127 and 128 in Order No. 4991b., Docket No. 83.3.18.

18. The RMTS suggest that Mountain Bell recover the revenue requirement caused by loss of CPE from ATTCOM based on the argument that AT&T should bear any burden caused by divestiture. The Commission finds this to be an inappropriate method to recover lost CPE net income. To the extent that CPE revenues exceeded CPE intrastate costs they were covering costs for other services. There seems to be no logical reason why Montana toll customers should bear this burden unless it can be shown that intrastate access revenues are not currently covering intrastate access costs.

CONCLUSIONS OF LAW

1. Applicant, The Mountain States Telephone and Telegraph Company, is a corporation providing telephone and other communications services in the State of Montana, and as such, is a public utility in the meaning of 69-3-101, MCA.

2. The Montana Public Service Commission properly exercises its jurisdiction over Applicant's Montana operations pursuant to Title 69, Chapter 3, MCA.

3. Section 69-3-304, MCA, provides in part:

“The Commission may, in its discretion, temporarily approve increase pending hearing or final decision.”

4. The rate levels and spread approved herein are a reasonable means of providing interim relief to Mountain Bell and are just, reasonable and not unjustly discriminatory.

ORDER

1. Mountain States Telephone and Telegraph Company is hereby granted authority to implement, on an interim basis, increased rates designed to generate \$25,474,000 in additional annual revenues.

2. The increased revenues authorized herein shall be collected from tariffed services in the manner described in the Findings of Fact of this order.

3. The increased rates authorized herein shall be effective for service on and after January 1, 1984.

4. Mountain Bell is directed to file monthly financial reports with the Commission showing total state and intrastate revenues, expenses and rate base. Monthly budgeted amounts shall be included with significant variances analyzed. Reports on a total state basis shall be filed by the end of the following month. Reports on an intrastate basis shall be filed within 2 months after

the end of the report month.

5. Interim rates granted herein are subject to rebate should the final order in this Docket determine that a lesser increase in annual revenues is warranted. Such a rebate would include compound interest pursuant to Section 69-3-304,. MCA, at 13.5 percent.

DONE IN OPEN SESSION at Helena, Montana, this 28th day of December 1983, by a 5 to 0 vote.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION.

THOMAS J. SCHNEIDER, Chairman

JOHN B. DRISCOLL, Commissioner

HOWARD L. ELLIS, Commissioner

CLYDE JARVIS, Commissioner

DANNY OBERG, Commissioner

ATTEST:

Iris Basta, Acting Secretary

Madeline L. Cottrill
Commission Secretary

(SEAL)